



HOW DO YOU WANT TO PAY FOR THAT? THE PROS & CONS OF PAYING BY CASH, CHECK, DEBIT & CREDIT CARDS

Today, consumers have a choice of several payment options when purchasing goods and services. These options all have pros and cons depending on how the transaction is made (in person from retailers, by mail, telephone or over the internet) and the money management skills of the purchaser.

CASH & CHECKS

While it may seem a bit old fashioned to some, paying by cash is still preferable in some situations. Paying by check usually involves providing at least one form of picture identification and some merchants have stopped accepting checks altogether due to security concerns.

Pros of Paying By Cash or Check

- Cash is a quick and convenient way to pay for relatively small, in-store purchases;
- No borrowing is involved so users can't run up debt;
- It's easy to keep track of your funds.

Cons of Paying by Cash or Check

- If cash is lost or stolen, it's usually gone forever. Refrain from carrying large amounts of cash on your person. Never send cash through the mail.
- Paying by check is more secure than paying by cash, but lost/stolen checks must be reported to your bank immediately to stop the payment of funds. Banks also charge a fee to stop payment.
- Cash and check transactions can't be verified without a receipt so you need to save receipts for any purchase where you may want/need to return the goods purchased.

DEBIT CARDS

Debit cards allow users to access their bank checking accounts to make purchases. When users make a purchase, the funds are deducted directly from their account.

Pros Debit Card Use

- Debit cards provide an easy and convenient way to make purchases;
- Many merchants who do not accept payment by check, will accept payment by debit card;
- Federal law limits a debit card user's liability to \$50 if the card is lost or stolen so long as the loss is reported to the bank within 2 days. Waiting longer to report the missing or stolen card can result in a greater loss of funds.
- No borrowing is involved so users can't run up debt.

Cons Debit Card Use

- Users must keep track of how much they spend. If a purchase exceeds the amount of money in the user's account, the purchase will be rejected (unless the user has "overdraft protection" which is often costly);
- Debit cards do not provide the "charge back" protection of credit cards (described below). Once you have made a transaction, the purchase price is immediately withdrawn from your account. If a merchant fails to deliver the goods or services, delivers defective goods, or misrepresents them, the bank will not investigate or intervene in the matter.
- Some banks charge fees for each transaction. While the individual fee may be small, they may add up to a big expense if you use the card frequently. Make sure you understand all fees that can be charged in connection with your debit card.
- Responsible debit card use does not build your credit history.

CREDIT CARDS

Credit cards allow the user to instantly borrow money from the card issuer to pay for purchases up to a specified credit limit. Users receive a monthly statement of the purchases they have charged to their credit card account. If the balance is paid in full by the due date, no interest is charged to the account. If less than the full balance is paid, interest will be charged on the unpaid balance. So long as the "minimum payment" is paid and the user does not exceed the credit limit, s/he can continue to charge additional items.

Pros of Credit Card Use

- Provides users with a quick and convenient way to pay for purchases;
- Gives users the ability to cover emergency situations or purchase big-ticket items that they need but can't pay for all at once (e.g. unexpected car repairs, new appliance purchases);
- Federal law limits a user's liability to \$50 if the user's card is lost or stolen, so carrying a credit card is safer than carrying large amounts of cash;
- If a merchant fails to deliver the goods or services, delivers defective goods, or misrepresents them, the user can request a "charge back" of the purchase price. The user does not have to pay for that transaction while the card issuer investigates.
- Wise use of a credit card allows the user to establish a positive credit history

Cons of Credit Card Use

- Interest charges can mount up quickly if the balance isn't paid off each month;
- Late or missed payments result in costly fees and can also lead to interest rate hikes;
- Using a credit card makes it easier for users to spend more money than they actually have. If used irresponsibly, credit card users can get in over their heads with debt. Users who fail to make payments on time establish a negative credit history making it difficult or more expensive for them to borrow from others.

To obtain this factsheet in an alternative format, please contact the Office of Consumer Protection at 410-313-6420(voice/relay) or email us at consumer@howardcountymd.gov.